Improving Services Acquisition Tradecraft

Services Acquisition Is Not for Amateurs

Peter Czech ■ *John Mueller*

Most of our services are bought by people as an ancillary duty. They're, in a sense, amateurs. They're trying to get something else done, and they're issuing contracts for services in order to help them. That's not their principal preoccupation.

—Dr. Ashton B. Carter
Testimony before the Senate Committee on Armed Services
Sept. 28, 2010

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n 2010, DoD spent $201 billion of its $367 billion contract budget on services ranging from facility maintenance to engineering evaluations. In his Sept. 14, 2010, memorandum on affordability, Carter cited the need to improve tradecraft in services acquisition. The recent attention to services acquisition has elevated this once ignored activity to a prominent role in DoD's future budget.

Sizing Up the Issue

The Department of Defense is one of the largest buyers of materials, goods, and services in the world. A majority of this effort is contracted out vice performed in house, including many types of services. In a trend that began in the early '90s, the amount of funds spent on services has grown at an accelerated rate as the U.S. military transformed itself a personnel/hardware based force to an information based force. In 2010, DoD purchased just over $200 billion in services from a total budget of more than $530 billion. If these purchases were concentrated as a single business unit, the "DoD services unit" would rank as the third largest U.S. business, between ExxonMobil and Chevron, respectively. This "nearly the largest business" is run by a collection of government employees stationed around the globe each trying to provide the warfighter with mission critical items. The challenge Carter issued to this distributed workforce is to increase our process efficiency so that funds can be reallocated to direct warfighter support and equipment modernization. His guidance is a call to action on improving business practices.

What Services Does DoD Buy?

The services DoD buys represent a wide range of deliverables. Some were previously performed by military members or civilians working for the government but now can be effectively purchased in the commercial market.

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Other services represent unique commercial capabilities adapted to the military's mission.

One of the first challenges facing the services acquisition professionals in optimizing their processes is consolidating service activities into like categories. To assist this effort, Shay Assad, director, Defense Procurement and Acquisition Policy (DPAP), provided a definitive framework for DoD services in his memorandum on the taxonomy for the acquisition of services, Nov. 23, 2010. This framework grouped 33 activities into six large groups, providing the needed clarity for improving how each of these categories is acquired (Figure 1).

Of the six groupings, three categories account for 74 percent of the total service acquisition budget. These three categories are Knowledge Based, Facility Related, and Equipment Related Services. Within these groups, growth is increasing in the areas of Research and Development (R&D), Professional Advisory and Assistance Services (A&AS), and Weapons System Maintenance. The remaining categories range from less than 1 to 10 percent of the total (Figure 2). In the spirit of "fishing where the fish are," we'll narrow our focus on these "Big 3" groups.

Figure 1. The Services Taxonomy—2010

Knowledge Based
Engineering Management
Program Management
Logistics Management
Management Support
Administrative and Other
Professional
Education and Training

Transportation
Transportation of Things
Transportation of People
Other Travel and Relocation

Equipment Related
Maintenance, Repair, and Overhaul
Equipment Modifications
Installation
Quality Control
Technical Representatives
Purchases and Leases
Salvage

Facility Related
Architect/Engineering
Operation of Government Owner Facilities
Machinery and Equipment Maintenance
Buildings and Plant Maintenance
Natural Resource Management
Utilities
Housekeeping and Social Services
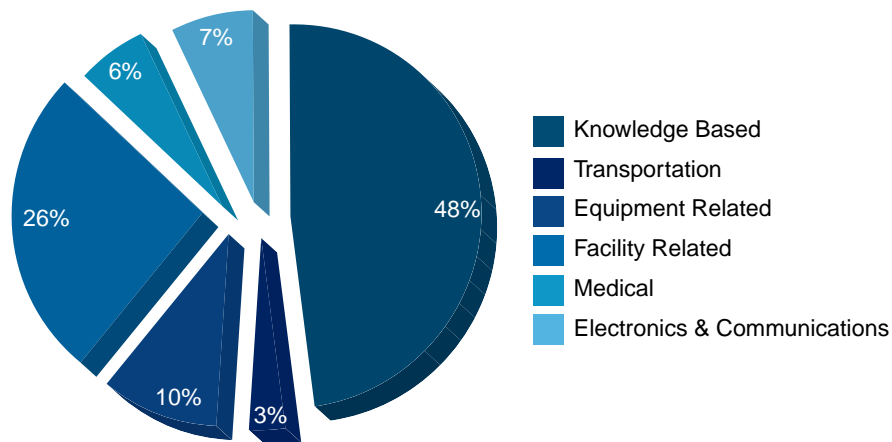Purchases and Leases
Railroad Equipment Modifications

Medical
General Medicine
Dentistry
Special Services

Electronics and Communications
ADP Services
Telecon
Equipment Maintenance
Equipment Lease

Figure 2. DoD's 2010 Services Expenditures

Legend:
- Knowledge Based
- Transportation
- Equipment Related
- Facility Related
- Medical
- Electronics & Communications

Values shown: 48%, 26%, 10%, 3%, 6%, 7%

What Makes Services Acquisition Unique?

The primary characteristic of the "Big Three" is that they are knowledge-based services, for which qualification of the deliverable is harder than it is for a more traditional service. For example, if your objective is facility grounds maintenance, a functional element is having the lawn mowed. In seeking this service, it is fairly easy to establish a performance standard on the length, interval between mowing, and any bounding conditions. This performance standard makes it easy to estimate, bid, and perform a comparative analysis amongst the potential performers. Contrast that with requesting an engineering analysis on a proposed design change or providing consulting services on scientific research. While the output (report or recommendation) can be well described and specified, how well the performer completes that objective and the accompanying quality standard is significantly harder to specify than "Mow the lawn every Friday at a height of three inches."

A second unique characteristic of services procurement is that the buyer is frequently at an intellectual disadvantage in comparison to the seller. This is not an insult to the intellect of the DoD buyers, but a feature inherent to a knowledge-based product purchase. The challenge is how to negotiate a reasonable price from a disadvantaged knowledge position. This is especially true when inexperienced or infrequent members of the acquisition workforce seek to acquire knowledge-based support from companies steeped in the DoD business. While a similar condition can exist in traditional acquisitions, the physical nature of having something to see and touch can quickly educate a buyer vice the intangible nature of a knowledge-based product.

A third characteristic which challenges the services acquirer is a frequently underestimated barrier to real competition. On the surface, not having a major tangible delivery would translate into low barriers to entry for knowledge-based products; however, in reality it is difficult to obtain/retain the specialized talent, security clearances, and on-site presence often called for in service contracts. As a result, true competitions for these efforts are infrequent leading to an entrenchment of the incumbent provider. Taken to the extreme, this entrenchment leads to a transfer of the knowledge required for program continuity from the government team to the contractor support. This further suppresses the opportunity for real competition.

Four Strategies From the PEO

One best practice Carter identified was the Air Force's establishment of a program executive officer (PEO) for services, Maj. Gen. Wendy Masiello, USAF PEO for Combat and Mission Support (AFPEO/CM).

The Air Force recognized the growing importance of services acquisition and in 2007 established a PEO for services to provide an executive voice for the acquisition. In 2010, the Air Force spent approximately $64.9 billion on goods and services of which nearly 40 percent, or $25.7 billion, was spent on services (excluding research and development). According to Masiello, her first action was to provide a standardized acquisition approach for this diverse field.

> Developing an effective structure in concert with the right management and oversight tools is key to the efficient management of these often times mission critical programs. The AF personnel that lead service contracts must have access to the most effective methods to manage the mission critical workforce and functions provided through these acquisitions.

In response to this challenge, she has provided the following guidance to assist those in these critical positions:

- **Optimize your span of control.** While all echelons of leadership must be involved in requirements development, source selection, and performance assurance, the real execution and management of programs must be accomplished at the intermediate and local levels. The role of the senior services manager is to establish the governance construct and perform executive level oversight as required.

- **Position the mission owner as the leader.** Too often the mission owner does not fully understand or recognize their ability to shape and hold accountable contractors that provide mission critical capabilities. As a result, they grow accustomed to accepting a lower level of performance than what they are actually paying for. By actively encouraging delegation of acquisition oversight and decision authority, AFPEO/CM is reinforcing driving mission ownership to the functional commanders and mission owners. By connecting these leaders into the acquisition system, they are given the tools and insight required to affect the conduct of the contractor provided mission capability necessary to run their organizations.

- **Find your rhythm.** A reliable battle rhythm assists the flow of information, helps institutionalize oversight and processes, and creates recurring opportunities to make adjustments. As a result, the various echelons of the Air Force are connected in the conduct of services acquisitions more fully then they ever have been connected before.

> **Armed with these guidelines, acquirers and leaders are able to better control spending and adjust contractor behaviors to drive productivity and efficiencies.**

- **Hold yourself (and others) accountable.** The use of program and services acquisition oversight reviews drives ownership and accountability of both specific programs with their associated contracts, and the overall management and execution of delegated acquisition authorities.

Now armed with these guidelines, acquirers and leaders are able to better control spending and adjust contractor behaviors to drive productivity and efficiencies. In the current fiscal environment, it is imperative to understand precisely what the service needs a contractor to provide, or accomplish, and to define that requirement as specifically possible.

How We Become Better Buyers

From the preceding paragraphs, the obvious answer to becoming a better buyer is improved knowledge and awareness. This can be gained in a number of ways frequently defined by how long it takes and how costly is the lesson. With the increasing desire for efficiency now, it's unlikely that "long" and "costly" are the right answers. To that end, we asked Masiello for her "best practice" examples for improving services acquisition.

Take a fresh look at your requirements. Requirements holder awareness and cost visibility are the keys to reducing excess knowledge-based services. Excess support is not an intended consequence, but develops incrementally in a services contract while the performer strives to make their service more valuable. Organizations must fully understand the intended scope and pricing arrangements associated with contractor support. Once there is full awareness of what organizations are buying, then efficient decisions can be made regarding requirements definition and used to determine the proper mix of contractor to organic capability.

Enhance competition and ensure that price matters. Historically, services are awarded on a "best value," full-tradeoff basis. This decision process frequently invites complacency on an incumbent's part and an expectation that the customer will be willing to pay more each year for the same level of service. By putting source selection emphasis back on price, the non-price-related advantages of being the incumbent are deemphasized, re-establishing price competition. Full com-

petition encourages the incumbent to improve its pricing as well. Carter's direction to improve tradecraft in services acquisition included a 3-year period of performance limitation for single-award A&AS contracts. I am also applying the 3-year period of performance limit (including options) to task orders for A&AS awarded under a multiple award indefinite duration/indefinite quantity (ID/IQ) contracts.

Additionally, for the most part, multiple award ID/IQs will be restricted to a 5-year ordering period. The only exceptions will be for longer term programs where improved performance or reduced costs can be truly realize and measured. By using these approaches acquisition teams will be better positioned to achieve a balance between continuity, ease of ordering, and effective competition.

Match the contract type to your knowledge level. There is not a standard contract type for all services acquisitions. Although DPAP is emphasizing greater use of firm fixed price (FFP) contracts, FFP is not a one-size-fits-all solution. The correct answer to question "What is the appropriate contract type?" is "It depends"—the same answer to every classic acquisition question. However, time-tested constructs provide a good guide:

- When the requirement is uncertain, share the risk in a cost plus fixed fee (CPFF) effort to lower price and attract offerors while gaining cost insight for a subsequent fixed price incentives (FPI) or firm fixed price (FFP) arrangement, if possible.
- With a well-defined and stable requirement, push the risk to the contactor via a FFP arrangement.
- When the requirement is between these extremes, consider using a mixture of contract types.

However, to find the most efficient contract methods and develop efficiency driving requirements documents, the government must understand how industry prices the elements of work and uses its labor force. For example: In the case of a well-defined requirement with quality historical cost and utilization data, it is generally wise to issue a FFP contract. However, after a few iterations of FFP contracts, visibility into material costs and labor utilization tends to deteriorate, along with an understanding of the effects of innovation, efficiencies, and the range of available industry approaches. This is especially true if the government has lost its technical expertise for the function. In these cases, a cost plus incentive fee (CPIF) or other cost incentive arrangement can keep the pressure on the contractor to provide efficient approaches and provide the government with a new baseline for costs. By reestablishing cost insights, we better position our acquisition teams to as-

sess proposals and negotiate follow-on FFP contracts.

For the services acquisition workforce, the bottom line is that requirements holders and their supporting acquisition professionals must understand how the formulation of the performance work scope, coupled with the stability and certainty of the requirement affects contractor pricing strategies. With this knowledge, the government can adjust the requirement and more cost effectively assign tasks between government and contractor performers. Empowered with this insight, the correct acquisition approach can be developed to effectively employ declining budgets.

The Greatest Opportunities for Savings

While the opportunity for savings in the services arena appears to be large, the pressing question is where to start. When we posed this question to AFPEO/CM, her response was:

> My focus is on equipment related services related to sustainment of weapons systems. It is our largest spend area. Consistent with our functional ownership approach, managers need to team with the requirements owners, so together, they can rethink sustainment approaches. An example of potential savings is the MQ-1 (Predator) organizational-level maintenance. The Air Force reduced the Predator buy by two units to purchase technical data. That tech data saved an estimated $100 million in projected O-level maintenance

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and had the added benefit of increasing Predator mission capable rates from 84 percent to 94.6 percent.

The right answer for you is likely to be with your next opportunity, whichever that might be. As a guide, DAU has developed the Services Acquisition Mall (https://sam.dau.mil), which is also designed to provide the acquisition workforce with an easy-to-access and understand site providing training, templates, and tools to develop effective services acquisitions. Additionally, DAU has developed a targeted training tool, the Services Acquisition Workshop, for developing and executing performance-based services requirements. The 4-day SAW is designed as just-in-time team training to facilitate a specific acquisition team and its requirements through a seven-step services acquisition process directly applicable to its requirements.

What's Next?

Carter stressed the importance and high dollar value of the service acquisitions as never before and issued us a challenge. As an acquisition workforce, accepting this responsibility means we must invest in ourselves through training and practice to make the needed improvements to lose our "amateur status." We challenge you to make programs more affordable by using the tools outlined here.

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